Free report about calculations

Business, Marketing

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Analysis: IBM vs. Infosys Inc

As per the definition, Large Cap stocks refer to the stocks of the company, whose market capitalization exceeds $10 Billion. The term ‘’ Large Cap’’ is an abbreviation for the term large capitalization of a company which is calculated by multiplying number of shares outstanding to market price per share. For growth stocks, such stocks are expected to provide returns higher than the above market rate of return. Generally, market analyst considers the technology or the blue chip stocks to be growth stocks.

For the given task, I have selected two blue chip stocks i. e., IBM from USA and Infosys Inc from India. While IBM has market capitalization of $190 Billion, Infosys Inc have market capitalization of $31 Billion. The main purpose of including an International Security is to avail the benefit of international diversification. Our results below indicate that during May, 013-March, 2014(till date), IBM has provided average return of -0. 89%, while INFOSYS Inc. has generated return of 4. 60%. Furthermore, using the variance calculations of both the stocks, we come to know that despite of being in the same industry, the correlation is -0. 841 which is an attractive reason for inclusion of both the stocks in the portfolio. This is because, less is

the correlation, and more better are the diversification benefits offered by the stocks in the portfolio.

However, one of the primary risks associated with the inclusion of an international stock is the associated Foreign Currency Risk. Since IBM deals in US Dollar and INFOSY Inc deals in Indian Rupee, this means that the portfolio is exposed to foreign currency risk. For Instance, if the investor is in US and even if Infosys Inc has provided him positive returns, a 10% appreciation in US Dollars will downsize his profits. In this way, his net return will be decreased because of appreciation in US Dollar.

Offsetting Foreign Currency Risk:

Market analysts are fully aware of the foreign currency risk and the threat it poses to portfolio returns. Thus, an investor may reduce the risk of loss from fluctuations in currency exchange rates with following tools:

- Hedging
- Currency Futures

Despite the perceived dangers of foreign investing, an investor may reduce the risk of loss from the fluctuations in exchange rates. While, hedging involves taking one risk in order to erode the other, Future Contracts are advanced orders to be completed on a pre-fixed date. For Instance, if the US investor is expecting to sell his Indian Stock on a date, he can lock in the exchange rate for that future rate by entering into offsetting currency future positions so as to avoid exchange losses to the extent possible.

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